

TRANSPORT CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	650
12 month price target (INR)	875
Market cap (INR bn/USD bn)	50/0.6
Free float/Foreign ownership (%)	30.5/16.0
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

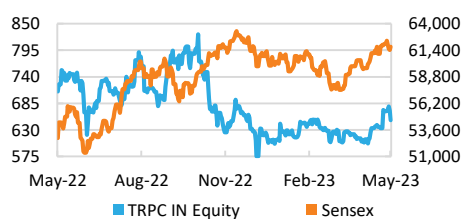
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth		•	
Overall			•

FINANCIALS

(INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Revenue	32,567	37,826	41,553	45,101
EBITDA	4,087	4,240	4,813	5,239
Adjusted profit	2,928	3,206	3,872	4,053
Diluted EPS (INR)	37.1	40.6	49.1	51.4
EPS growth (%)	84.6	9.5	20.8	4.7
RoAE (%)	22.5	20.5	21.0	18.9
P/E (x)	17.5	16.0	13.2	12.7
EV/EBITDA (x)	12.4	11.7	10.0	8.9
Dividend yield (%)	0.6	0.7	0.8	0.8

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Modest quarter; seaways drag margins

Transport Corporation of India (TCI) reported a modest quarter, albeit marginally below estimates. Freight segment saw resilient margins whereas SCM saw a QoQ margin expansion of 60bp. However, lower contribution from high-margin seaway segment dragged overall margins. On balance, it was a reasonable result from TCI, albeit slightly below our/Street's estimates.

We reckon that TCI's transition towards a higher LTL mix, along with strong margins in the supply-chain business, should largely offset any margin headwinds from seaways. Moreover, at one-year forward PE of 13x, TCI provides valuation comfort. Maintain 'BUY' with an unchanged TP of INR875, implying 18x 1Y-forward earnings

Lower margins impair earnings

TCI's Q4 results were slightly below estimates due to margin miss. Standalone revenue grew 11% YoY/1% QoQ led by a decent uptick in Freight & SCM segments. EBITDA margins came in at 11.9% versus 12.4% in Q4FY23 and 14.2% in Q4FY22. Drop in margins was largely due to lower revenue from the high-margin seaway segment. Overall, PAT was down 22% QoQ. Freight division posted a 5% QoQ uptick in revenue—decent showing given the volatile demand scenario. EBIT margins stayed resilient at 4.5%. Supply Chain Solutions posted reasonably strong 4% QoQ growth with margins expanding 60bp to 6.5%. Seaway division seems to be settling down as revenue decelerated 11% QoQ with margins at 28% versus 27% QoQ.

Business-mix change to provide re-rating impetus

Our investment rationale for TCI is based on the company's underlying business mix improving over the next three–four years. TCI is targeting a higher-margin LTL mix of 40% in the freight division. The supply-chain division is part of the fast-growing 3PL category – expected to log 15%-plus CAGR over the next five–seven years. TCI also plans to add capacity in its seaways division, which should aid margin expansion and RoCE over the medium-term. However, a greater-than-expected drop in the seaways division's earnings could be a dampener for FY24E.

Outlook and valuation: Attractive prospects; retain 'BUY'

TCI has been one of the better performers in the Indian logistics sector and has thus seen a re-rating over the past two years. The stock, at one-year forward PE of 13x, provides valuation comfort. We argue there is more value though, and hence, retain 'BUY/SO' with an unchanged TP of INR875 (18x 1Y-forward).

Financials

Year to March	Q4FY23	Q4FY22	% Change	Q3FY23	% Change
Net Revenue	8,897	7,979	11.5	8,808	1.0
EBITDA	1,054	1,136	(7.2)	1,088	(3.1)
Adjusted Profit	741	731	1.4	953	(22.2)
Diluted EPS (INR)	9.7	9.5	1.4	12.4	(22.2)

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Total operating income	32,567	37,826	41,553	45,101
Cost of Goods Sold	25,766	30,307	33,101	35,935
Employee costs	1,700	1,965	2,183	2,356
Other expenses	1,013	1,314	1,455	1,572
EBITDA	4,087	4,240	4,813	5,239
Depreciation	1,130	1,214	1,342	1,580
Less: Interest expense	128	98	97	98
Add: Other income	199	303	528	501
Profit before tax	3,028	3,231	3,901	4,062
Prov for tax	377	434	481	505
Less: Other adjustment	277	410	451	496
Reported profit	2,928	3,206	3,872	4,053
Less: Excp.item (net)	0	0	0	0
Adjusted profit	2,928	3,206	3,872	4,053
Diluted shares o/s	79	79	79	79
Adjusted diluted EPS	37	41	49	51
DPS (INR)	4.1	4.6	5.0	5.2
Tax rate (%)	12.4	13.4	12.3	12.4

Important Ratios (%)

Year to March	FY22A	FY23A	FY24E	FY25E
EBITDA margin (%)	12.6	11.2	11.6	11.6
PBT growth (% YoY)	81.1	6.7	20.8	4.1
Net profit margin (%)	9.0	8.5	9.3	9.0
Revenue growth (% YoY)	16.2	16.1	9.9	8.5
EBITDA growth (% YoY)	56.5	3.7	13.5	8.8
Asset turnover (X)	2.1	2.3	2.1	2.0
Adj. profit growth (%)	84.6	9.5	20.8	4.7
EBIT margin (%)	9.1	8.0	8.4	8.1

Assumptions (%)

Year to March	FY22A	FY23A	FY24E	FY25E
GDP (YoY %)	8.7	6.4	5.8	5.8
Repo rate (%)	4.0	6.5	5.5	5.5
USD/INR (average)	74.5	81.0	81.0	81.0
Freight margin (%)	4.5	4.4	4.6	4.8
SCM margin (%)	10.7	9.4	11.7	12.0
Real. per DWT (INR)	90,000	90,000	0	0
Freight div. (% YoY)	19.2	16.4	0	0
SCM growth(% YoY)	7.2	27.4	0	0
Seaways (% YoY)	44.4	4.9	0	0

Valuation Metrics

Year to March	FY22A	FY23A	FY24E	FY25E
Diluted P/E (x)	17.5	16.0	13.2	12.7
Price/BV (x)	3.6	3.0	2.6	2.2
EV/EBITDA (x)	12.4	11.7	10.0	8.9
Dividend yield (%)	0.6	0.7	0.8	0.8

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Share capital	155	155	155	155
Reserves	14,148	16,863	19,740	22,806
Shareholders funds	14,303	17,018	19,895	22,961
Minority interest	274	301	274	274
Borrowings	962	919	872	936
Trade payables	851	760	1,031	1,127
Other liab & prov	1,586	1,693	2,001	2,001
Total liabilities	18,041	20,766	24,092	27,317
Net block	7,983	7,884	9,425	10,316
Intangible assets	30	28	6	6
Capital WIP	73	260	260	260
Total fixed assets	8,087	8,172	9,691	10,582
Non current inv	1,780	1,977	1,770	1,770
Cash/cash equivalent	745	1,846	3,149	4,899
Sundry debtors	5,083	5,609	6,861	7,441
Loans & advances	13	12	12	12
Other assets	2,166	1,996	2,081	2,085
Total assets	18,041	20,766	24,092	27,317

Free Cash Flow (INR mn)

Year to March	FY22A	FY23A	FY24E	FY25E
Reported profit	2,928	3,206	3,872	4,053
Add: Depreciation	1,130	1,214	1,342	1,580
Interest (net of tax)	86	66	65	65
Others	(302)	(150)	(947)	(965)
Changes in WC	(163)	(729)	(1,020)	(489)
Operating cash flow	3,680	3,607	3,312	4,245
Less: Capex	(707)	(1,530)	(2,953)	(2,471)
Free cash flow	2,973	2,077	359	1,773

Key Ratios

Year to March	FY22A	FY23A	FY24E	FY25E
RoE (%)	22.5	20.5	21.0	18.9
RoCE (%)	21.1	19.7	20.4	18.4
Receivable days	57	52	55	58
Payable days	9	8	8	9
cash conversion cycle	49	44	47	50
Working cap (% sales)	15.0	13.8	15.0	14.9
Gross debt/equity (x)	0.1	0.1	0	0
Net debt/equity (x)	0	(0.1)	(0.1)	(0.2)
Interest coverage (x)	23.0	30.8	35.7	37.5

Valuation Drivers

Year to March	FY22A	FY23A	FY24E	FY25E
EPS growth (%)	84.6	9.5	20.8	4.7
RoE (%)	22.5	20.5	21.0	18.9
EBITDA growth (%)	56.5	3.7	13.5	8.8
Payout ratio (%)	11.0	11.4	10.2	10.1

TRANSPORT CORPORATION

Exhibit 1: Quarterly snapshot

Financial snapshot - (Standalone)

INR mn	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %	FY23	FY24E
Revenues	8,897	7,979	11.5	8,808	1.0	34,302	36,896
Operating expenses	7,010	6,144	14.1	6,939	1.0	27,122	28,850
Employee Benefit Expenses	493	422	16.8	476	3.4	1,896	2,101
Others	340	277	22.6	305	11.5	1,218	1,374
Total expenditure	7,843	6,843	14.6	7,721	1.6	30,236	32,325
EBITDA	1,054	1,136	(7.2)	1,088	(3.1)	4,066	4,571
Depreciation	299	360	(17.0)	301	(1.0)	1,168	1,288
EBIT	756	777	(2.7)	787	(3.9)	2,898	3,283
Interest	21	19	8.4	22	(5.9)	82	82
Other income	114	78	47.4	289	(60.4)	623	528
Add: Exceptional items	10	0	NA	0	N/A	10	0
Profit Before Tax	840	835	0.5	1,053	(20.3)	3,429	3,729
Less: Provision for Tax	98	104	(5.7)	100	(1.6)	394	429
Reported Profit	741	731	1.4	953	(22.2)	3,035	3,300
Adjusted Profit	741	731	1.4	953	(22.2)	3,035	3,300
Adjusted Diluted EPS	9.7	9.5	1.4	12.4	(22.2)	39.5	43.0
P/E (x)						16.0	13.2
As % of net revenues							
Operating expenses	78.8	77.0		78.8		79.1	78.2
Staff expenses	5.5	5.3		5.4		5.5	5.7
Other expenses	3.8	3.5		3.5		3.6	3.7
EBITDA	11.9	14.2		12.4		11.9	12.4
Net profit	8.3	9.2		10.8		8.8	8.9

Source: Company, Nuvama Research

Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 12 million square feet of warehousing space

Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for ~15% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential.

Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis. Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely

Additional Data

Management

CEO	Vineet Agarwal (MD)
CFO	Ashish Tiwari
COO	
Other	
Auditor	Brahmayya & Co.

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	7.45	JP Morgan Chase	0.49
LIC Mutual Fund	0.91	Sundaram AMC	0.47
TATA AMC	0.87	BlackRock	0.16
Dimensional Fun	0.84	Wisdom Tree Inv	0.07
IDFC Mutual Fun	0.75	Acadian Asset M	0.03

*Latest public data

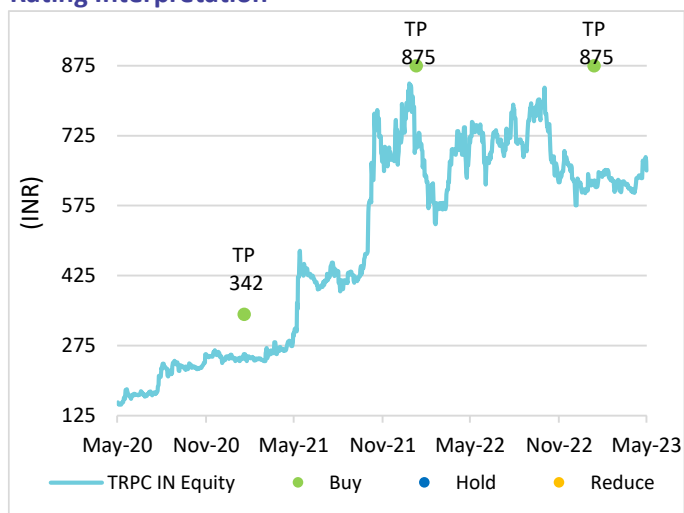
Recent Company Research

Date	Title	Price	Reco
30-Jan-23	Robust quarter; attractive valuation ; <i>Result Update</i>	628	Buy
31-Oct-22	A modest H1; second half to be better; <i>Result Update</i>	715	Buy
04-Aug-22	All-time high revenue; margins modest; <i>Result Update</i>	705	Buy

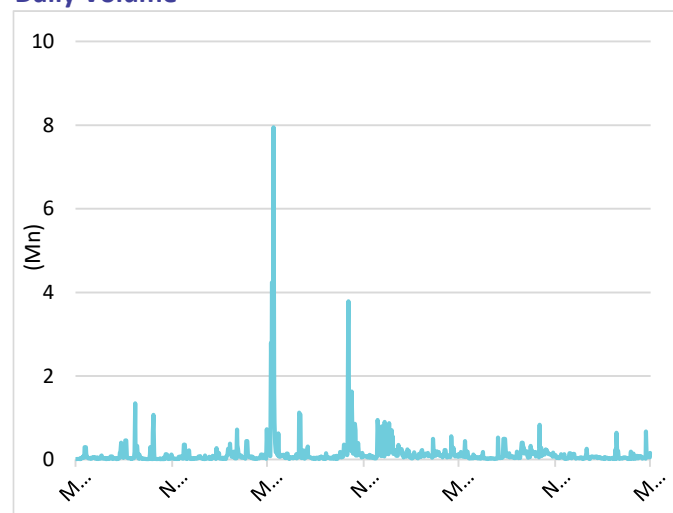
Recent Sector Research

Date	Name of Co./Sector	Title
19-May-23	Container Corporation	Market share loss weighs on earnings; <i>Result Update</i>
06-May-23	Blue Dart Express	Margin in a rut; H2FY24 triggers in plac; <i>Result Update</i>
25-Apr-23	Mahindra Logistics	New businesses drag profitability; <i>Result Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Nuvama Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	62	19	260
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	31	1	260

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	<15% and >-5%
Reduce:	<-5%

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TRANSPORT CORPORATION

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Abneesh Roy

Head of Research Committee

Abneesh.Roy@nuvama.com
